

A Report to the Montana Legislature

Performance Audit

Motor Vehicle Title and Registration Process

Department of Justice

May 2012

Legislative Audit Division

11P-07

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

RANDY BRODEHL
brodehl@centurytel.net
TOM BURNETT
Tburnetthd63@hotmail.com
VIRGINIA COURT
Vjchd52@yahoo.com
MARY MCNALLY
mcnallyhd49@gmail.com
TRUDI SCHMIDT
trudischmidt@q.com
WAYNE STAHL, VICE CHAIR
wstahl@nemontel.net

SENATORS

DEBBY BARRETT
grt3177@smtel.com
GARY BRANAE
garybranae@gmail.com
TAYLOR BROWN
taylor@northernbroadcasting.com

CLIFF LARSEN
cliff@larsenusa.com
FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com
MITCH TROPILA, CHAIR
tropila@mt.net

Members serve until a member's legislative term of office ends or until a successor is appointed, whichever occurs first.

\$5-13-202(2), MCA

Fraud Hotline (Statewide) 1-800-222-4446 (IN HELENA) 444-4446

PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Members of the performance audit staff hold degrees in disciplines appropriate to the audit process.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

AUDIT STAFF

Angus K. Maciver Torry van Slyke DIEDRA MURRAY

Reports can be found in electronic format at: http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors Cindy Jorgenson Angie Grove

May 2012

The Legislative Audit Committee of the Montana State Legislature:

This is our performance audit of the Motor Vehicle Title and Registration Process managed by the Motor Vehicle Division at the Department of Justice.

This report provides the Legislature information about the processing and recording of title and registration transactions, including fees. This report includes recommendations to the Department of Justice for improving the accuracy of vehicle and ownership records in the Montana Enhanced Registration and Licensing Information Network, ensuring duplicate plates do not exist, strengthening controls over fee adjustments, and making enhancements to its communication structure with county offices.

We wish to express our appreciation to Department of Justice personnel for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA Legislative Auditor

TABLE OF CONTENTS

	Figures and Tables	
	Appointed and Administrative Officials	iv
	Report Summary	S-1
CHAPTER	I – INTRODUCTION	1
	Introduction	1
	Montana Enhanced Registration and Licensing Information Network	1
	Overview of the Motor Vehicle Title and Registration Process	
	Other Parties Rely on MERLIN Data	
	Motor Vehicle Division Organizational Structure	
	Audit Objectives	
	Audit Scope	
	Audit Methodologies	
	Survey of County Staff	
	Issue for Further Study	4
	Report Content	
	II – MERLIN RECORDING AND PROCESSING OF TITLE AND REGISTRATION	
TRANSAC	TIONS Introduction	
	Improvements Have Been Made to MERLIN Since Initial Implementation	
	Analysis of County Transactions	
	MERLIN Transaction Analysis	
	Data Integrity in MERLIN Can Be Improved	
	Accuracy of Vehicle Ownership in MERLIN Could Be Improved	
	Controls Could Be Established to Improve the Accuracy of MERLIN Vehicle	12
	Ownership Data	12
	Audit Work Determined Security Interest or Lien Information May Be Inaccurate for Sor	
	Citizens	
	Citizens May Be Affected by Inaccurate Security Interest or Lien Information	
	Accuracy of License Plate Records for Permanently Registered Vehicles Can Be Improved	
	License Plates for Permanently Registered Vehicles Should Be Valid	
	Steps Should Be Taken to Correct Plates Reassigned in Error	
	Duplicate License Plates Exist	
	Analysis Identified Duplicate Plate Numbers Exist	
	Duplicate Plate Numbers Affect Citizens	
	Steps Should Be Taken to Correct Duplicate Plates	1/
	III – MERLIN RECORDING AND PROCESSING OF TITLE AND REGISTRATION	
TEE3	Introduction	
	MERLIN Accurately Records and Processes Title and Registration Fees	
	Analysis of MERLIN's Calculation of Fees	
	Analysis of MERLIN's Processing of Fees	
	Survey Work Identified Counties Are Satisfied With MERLIN's Accounting Process	
	Improvements Could Be Made to Fee Adjustments	
	The providence of the production of the producti	

Reasons for Some Fee Adjustments Could Not Be Identified	3
Controls Over Fee Adjustments Could Be Strengthened2	4
HAPTER IV – DEPARTMENT COMMUNICATION WITH COUNTY OFFICES2	5
Introduction2	5
Overall County Staff Indicate Being More Familiar With MERLIN2	
Training Resources Currently Available to Counties	6
Improvements Could Be Made to Training2	7
Audit Work Identified County Offices Would Benefit From Formal Training Plans2	7
Improvements Could Be Made in Communications Between The Department and County	
Offices2	8
Audit Work Identified Delays and Inconsistencies Occur Due to Current	
Communication Structure	8
The Department Indicates Improvements Are Being Made in Communications2	9
County Offices Are an Integral Part of Title and Registration Process2	
Inventory Tracking in MERLIN Could Be Improved	
County Offices Appear to Run Out of Inventory While Processing Transactions3	
Improvements Are Being Made to Inventory Tracking	
EPARTMENT RESPONSE	
Department of Justice	-1

FIGURES AND TABLES

<u>Figures</u>		
Figure 1	MERLIN Transaction Process	2
Figure 2	Survey Question Relating to General Satisfaction With MERLIN	8
Figure 3	Ownership Data Conversion Process	1
Figure 4	Survey Response Relating to Vehicle Ownership Data	12
Figure 5	Survey Response Relating to Impacts of Duplicate Plates	17
Figure 6	Title and Registration Transaction	19
Figure 7	Survey Response Relating to MERLIN Accounting Function	22
Figure 8	Survey Response Relating to MERLIN User Familiarity	20
<u>Tables</u>		
Table 1	September 2011 Fee Adjustments	24

APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Justice Steve Bullock, Attorney General

Tim Burton, Deputy Director/Chief of Staff

Brenda Nordlund, Administrator, Motor Vehicle Division

Kathy Seacat, Administrator, Central Services Division

Montana Legislative Audit Division



Performance Audit Motor Vehicle Title and Registration Process

Department of Justice

May 2012 11P-07 Report Summary

The State of Montana titles and registers over a million vehicles and collects over \$100 million in fees annually using the new Montana Enhanced Registration and Licensing Information Network (MERLIN) system; the Department could strengthen controls to ensure motor vehicle records and fees are accurate and should improve its communications with county offices using the system.

Context

The Department of Justice (Department) titles and registers over one million vehicles each year and in 2011 collected over \$100 million in fees. The Department's Motor Vehicle Division operates MERLIN, which is used to manage various activities, including titling and registering of vehicles, driver examinations and licensing, and regulating of motoring activities in Montana.

In 2009, the Department implemented MERLIN replacing its previous information system. MERLIN was designed to offer additional functionality. While citizens can conduct transactions online or in county offices, MERLIN records, processes, and generates fees for all transactions. County offices send revenue collected from title and registration transactions to the Department each month. The amount sent to the Department includes fees collected from title and registration transactions, excluding the county's portion of revenue collected. The Department then records revenues on the state's accounting online records. For transactions, Department's contractor sends both state and county portions of revenue to the Department.

Results

Audit work determined MERLIN accurately records and processes transactions, including title and registration fees. However, the Department could strengthen controls to ensure vehicle ownership records in MERLIN are accurate, duplicate plates do not exist, and fee adjustments are accurate. Additionally, since county offices are responsible for conducting front-end title and registration transactions, the Department could improve its communication structure with county offices to promote a more accurate and efficient motor vehicle title and registration process.

Based on audit work, we conclude MERLIN accurately captures and records transactions at the county level and generates transactions for all vehicle registration changes. However, the Department could improve the accuracy of vehicle and ownership records in MERLIN. Recommendations related to this area include establishing controls to ensure vehicle ownership records are accurate, identifying and correcting inaccurate security

interest or lien information, and correcting records affected by plate reassignment errors. Additionally, audit work determined duplicate license plates exist, meaning two or more citizens may be driving vehicles with the same plate number. Therefore, we recommend the Department remove duplicate license plates from circulation and issue new license plates to affected citizens.

Audit work also determined MERLIN accurately records and processes title and registration fees. However, 50 percent of counties responding to our survey indicated some type of inaccuracy with fees generated in MERLIN. Based on our review we identified variances in fees exist, due to fee amounts being adjusted during transactions. Since certain fees can be waived, counties need to be able to conduct fee adjustments. However, in some cases, we could not identify why adjustments were made. Therefore, to ensure fees charged are accurate, we recommend the Department strengthen its controls over fee adjustments.

County offices have an important role in the recording and processing of vehicle title and registration transactions. Audit work determined the Department could make improvements to its communications with county offices. Recommendations for improvement include, establishing a formal training plan for county offices, developing a formal communication structure with county offices, and following-up with county offices on inventory issues.

Recommendation Concurrence				
Concur	1			
Partially Concur	7			
Do Not Concur	0			
Do Not Concur	0			

Source: Agency audit response included in final report.

Chapter I – Introduction

Introduction

The Department of Justice's (Department) Motor Vehicle Division is responsible for titling, licensing, registering, and regulating motoring activities in Montana. Under state law, all motor vehicles including cars, trucks, motorcycles, snowmobiles, travel trailers, boats, and motor homes titled in Montana must be registered in the state.

Titling a vehicle establishes an individual as the legal owner of a vehicle. However, an individual cannot drive a vehicle until it is registered. As part of its responsibilities, the Department completes over one million title and registration transactions each year and in 2011 collected over \$100 million in title and registration fees. In September 2011, approximately two million motor vehicles were registered in Montana.

In June 2010, the Law and Justice Interim Committee requested an audit of the Department of Justice's motor vehicle title and registration process. As a result, the Legislative Auditor prioritized a performance audit in fiscal year 2012. This report provides information resulting from the audit work conducted related to the Department's title and registration process.

Montana Enhanced Registration and Licensing Information Network

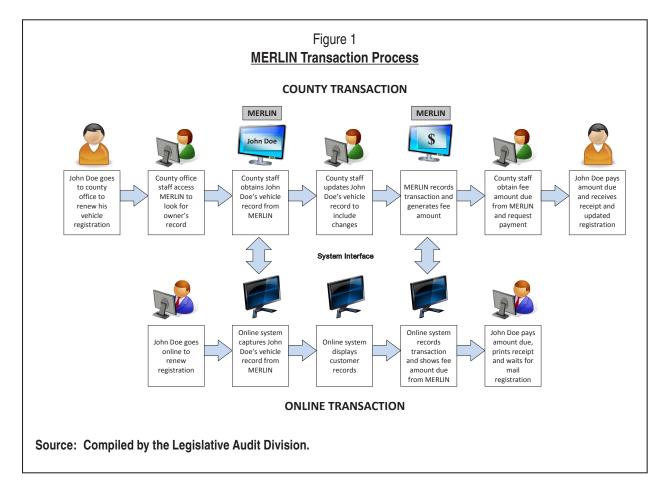
Beginning in 2001 and in subsequent years, the Legislature appropriated funding totaling \$28.5 million for the Department's Montana Enhanced Registration and Licensing Information Network (MERLIN). MERLIN replaced the previous information system and was designed to offer additional functionality to provide effective and efficient service to Montana citizens.

MERLIN is being implemented in stages, with the second phase being the title and registration system. Implementation of the title and registration system occurred in April 2009 and the Department now conducts all motor vehicle title and registration activities in MERLIN. To date, the Department has expended \$22.8 million of the \$28.5 million in funding. The Department continues to work on the implementation of the driver licensing system in MERLIN.

Overview of the Motor Vehicle Title and Registration Process

All title transactions must be completed at the county office. When citizens need to renew their vehicle registration, they have two options. With the implementation

of MERLIN, citizens can now renew their registration online or go to the county treasurer's office to complete the transaction. While citizens can conduct transactions online or in county offices, MERLIN still records, processes, and generates fees for all transactions. Figure 1 below illustrates a simplified view of how title and registration transactions are processed and recorded in MERLIN.



Once county staff process John Doe's transaction and all other vehicle title and registration transactions for the month, the county office sends the state's portion of revenue to the Department and the Department records revenue on the state's accounting records (SABHRS). For online transactions, the Department contracts with the state's electronic government services contractor. The contractor sends the state and county portions of revenue to the Department. The process for recording and processing fees is discussed further in Chapter III of this report.

Other Parties Rely on MERLIN Data

County offices are the main front-end users of MERLIN. However, other authorized users and the public rely on MERLIN data. For example, law enforcement relies on vehicle and driver information in MERLIN. Additionally, the public, financial

institutions, and vehicle dealers rely on MERLIN data when obtaining vehicle records including, who owns a vehicle, title history, and other pertinent information. Vehicle dealers also use MERLIN data to issue temporary registration permits (TRPs).

Motor Vehicle Division Organizational Structure

The Department's Motor Vehicle Division (Division) is responsible for overseeing MERLIN related activities including driver examinations and licensing, titling and registering of vehicles, and regulating of motoring activities in Montana. The Division is comprised of four bureaus. The Driver License Bureau and Records and Driver Control Bureau are responsible for conducting driver licensing activities and maintaining driver records. The Operations and Customer Support Bureau's activities include human resources, business communications, help desk functions, and online services including MERLIN. The Title and Registration Bureau (TRB) is responsible for issuing titles and registering vehicles and licensing vehicle dealers.

Audit Objectives

Based on our assessment of MERLIN and vehicle title and registration processes, we developed three audit objectives:

- 1. Determine whether MERLIN accurately records and processes motor vehicle title and registration transactions.
- 2. Determine whether MERLIN accurately records and processes motor vehicle title and registration fees.
- 3. Determine whether the Department has established effective communications with county offices to promote accurate and efficient motor vehicle title and registration using MERLIN.

Audit Scope

Audit scope focused on the Department's title and registration process conducted using MERLIN for calendar year 2011. Our review focused on title and registration activities in August and September 2011. While the TRB in Deer Lodge issues titles and maintains vehicle records, our audit focused on MERLIN activity and therefore activities specific to TRB were excluded from our review. Additionally, while MERLIN maintains data related to driver licensing and insurance verification, we did not examine these activities as part of our audit.

Audit Methodologies

To address audit objectives we conducted the following audit work:

- Interviewed Department staff responsible for title and registration activities.
- Observed and reviewed a total of 175 front-end transactions at 7 county treasurer's offices.

- Queried MERLIN data for August 2011 to verify front-end transactions were recorded in MERLIN.
- Interviewed staff at county treasurers' offices.
- Compared procedures to applicable state laws and administrative rules.
- Surveyed county staff in all 56 counties.
- Queried MERLIN data for September 2011 to examine fees charged and compared results to applicable state laws.
- Queried MERLIN's generated fee amounts for September 2011 to verify amounts matched state accounting records (SABHRS).

Survey of County Staff

Since all 56 counties use MERLIN to record and process motor vehicle title and registration transactions, we conducted an online survey in October 2011. We distributed the survey via email to all 56 counties' Training and Communication Contacts (TACs). The TACs serve as a contact point between counties and the Department. We also sent the survey to county treasurers, who in some cases are the TAC. A total of 92 surveys were sent to counties.

Survey questions provided counties the opportunity to provide us feedback related to MERLIN's processing and recording of transactions, communications with the Department, and other issues. We received a response from 39 TACs, including county treasurers serving as TACs. This meant we received a response from 70 percent of counties. An additional 19 county treasurers responded to our survey, for an overall response rate of 63 percent. Results of the survey will be discussed throughout this report.

Issue for Further Study

During the course of the audit, we identified an area of consideration for future audit work. As previously stated, we did not audit activity specific to the TRB in Deer Lodge. However, counties indicated ongoing concerns related to TRB including title work turnaround and communication. TRB employs 44 FTE responsible for regulating the title and registration process. While reviewing title and registration activities specific to MERLIN, we identified TRB has additional responsibilities related to receiving and processing title work. Future audit work could be conducted to examine the Bureau's efficiency and effectiveness in processing title work and its communications with county offices.

Report Content

The report includes four chapters addressing our audit findings, conclusions, and recommendations in the following areas:

- Chapter II examines the recording and processing of title and registration transactions in MERLIN.
- Chapter III provides an assessment of the recording and processing of title and registration fees.
- Chapter IV examines the Department's communication structure with county offices.

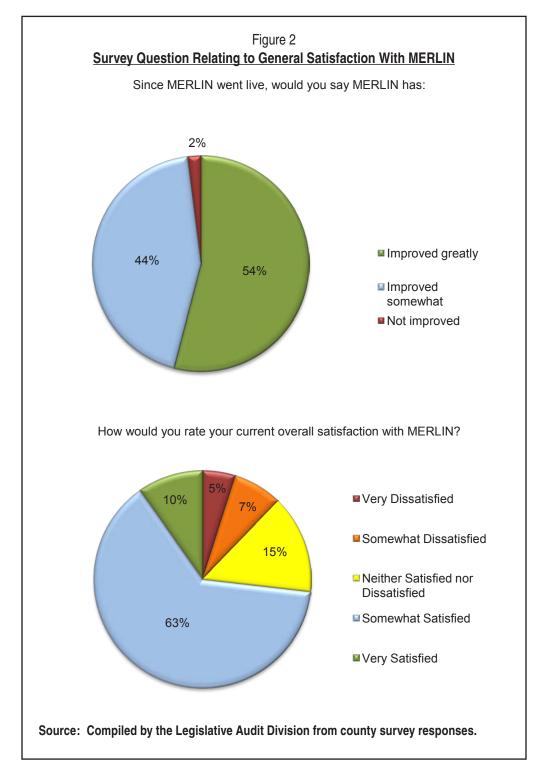
Chapter II – MERLIN Recording And Processing of Title And Registration Transactions

Introduction

As discussed in the previous chapter MERLIN records and processes all title and registration transactions, including online registration renewals. Since MERLIN is the official electronic record for title and registration, and multiple users access MERLIN data, we conducted audit work to examine whether MERLIN accurately records and processes title and registration transactions. The following sections discuss audit work conducted, conclusions related to MERLIN's recording and processing of transactions, and recommendations for improvement.

Improvements Have Been Made to MERLIN Since Initial Implementation

When the Department first implemented MERLIN in 2009, it faced many challenges and ultimately had to cease motor vehicle title and registration activities for two days. Therefore, we surveyed county staff to obtain an overall indication of whether MERLIN has improved since its implementation in 2009 and whether counties, in general, are satisfied with MERLIN. The following figure shows the survey questions asked and county staffs' responses.



As can be seen in the figure, we identified 98 percent of survey respondents indicated MERLIN has improved since implementation. Additionally, 73 percent of survey respondents, in general, were satisfied with MERLIN.

While the Department faced challenges during initial implementation, audit work determined, overall, counties are satisfied with the current title and registration process in MERLIN and the process has improved since MERLIN's implementation.

MERLIN Accurately Captures and Records Vehicle Title and Registration Transactions

To answer our first audit objective related to whether MERLIN accurately records and processes motor vehicle title and registration transactions, we conducted two types of analyses. The first being observation and analysis of front-end transactions at county offices to ensure MERLIN records front-end transactions. The other was a transaction analysis within MERLIN to ensure MERLIN records a transaction for vehicles with title and registration changes (e.g. new registration expiration date). Since MERLIN records and processes online transactions, these transactions were also included in our transaction analysis.

Analysis of County Transactions

To obtain assurance MERLIN captures front-end transactions at the county level we traveled to seven counties and observed a total of 175 title and registration transactions as citizens came into the county offices. Once county staff completed a transaction, we obtained copies of the citizens' receipt and registration. We then used the documentation gathered at the county level to verify MERLIN created a transaction for the 175 transactions.

To ensure MERLIN created a transaction, we obtained the Department's transaction report for August 2011. The Department's transaction report shows all transactions completed in MERLIN for a specific timeframe; the report is generated from MERLIN data. Based on our comparison of the Department's transaction report and the 175 transactions we observed, we identified all transactions were recorded in MERLIN.

MERLIN Transaction Analysis

Once we identified MERLIN accurately records transactions at the county level, we conducted an analysis to verify MERLIN created a transaction for vehicles with a registration change in September 2011. To conduct this analysis, we obtained copies of the MERLIN database at two different points in time. The first copy represented all data recorded in MERLIN on September 3, 2011, and the second copy represented all data recorded in MERLIN on September 30, 2011.

Since registration renewals and title and registration transactions generate a change in the registration data (e.g. updated registration date), we obtained registration data from the September 3 and September 30 database copies. We then identified any difference between the two points in time. Any difference meant at some point between September 3 and 30, the vehicle registration data was changed and MERLIN should have generated a transaction for the change (e.g. registration renewal or title and registration).

Based on our analysis, over 90,309 registration changes occurred in September 2011. To verify MERLIN generated transactions for registration changes, we compared the 90,309 transactions to the Department's transaction report. Based on our review, we were able to verify MERLIN generated a transaction for the 90,309 registration changes identified in September 2011.

CONCLUSION

Based on our analyses, we conclude MERLIN accurately captures and records transactions at the county level and generates transactions for all vehicle registration changes.

Data Integrity in MERLIN Can Be Improved

As discussed in the previous sections, we identified the Department has taken steps to improve MERLIN's functionality and MERLIN accurately records and processes transactions. However, audit work also determined specific circumstances have occurred affecting data integrity in MERLIN. If vehicle and/or owner information in MERLIN is not accurately recorded, it affects the accuracy of the vehicle record and can ultimately affect how MERLIN processes the transaction, including fees charged. These specific circumstances and recommendations are presented in the following order:

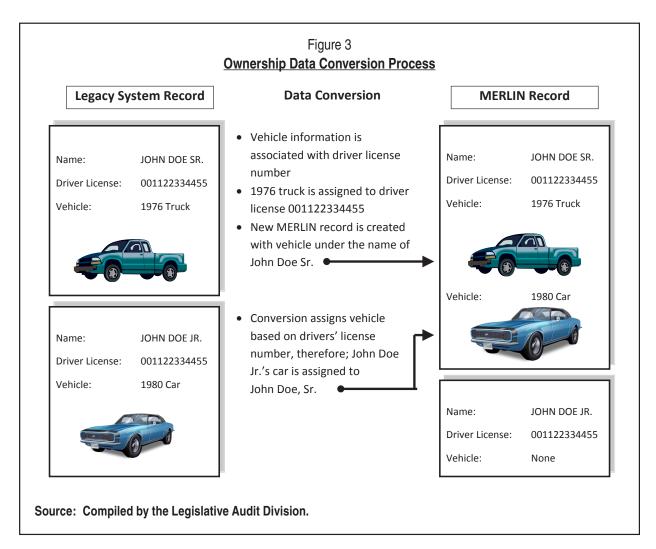
- Ensuring Vehicle Records Are Accurate
- Ensuring Citizens' Lien Information Is Accurately Recorded In MERLIN
- Ensuring Citizens Affected By Plate Reassignment Have Valid Plates
- Ensuring Duplicate Plates Generated In Error Are Corrected

Accuracy of Vehicle Ownership in MERLIN Could Be Improved

Through audit work, we identified instances where vehicle ownership data in MERLIN is inaccurate. If vehicle ownership is inaccurately recorded, MERLIN does not show the vehicle under the correct owner's name.

According to the Department, this occurred when data was converted from the previous system (legacy) to MERLIN. When preparing for conversion, the Department obtained drivers' license information and matched it with legacy customer records. When this occurred, inaccurate drivers' license information was transferred to some legacy records. Additionally, in limited cases, county staff inaccurately recorded the drivers' license in the legacy record. When conversion of legacy data occurred, these inaccurate records were transferred to MERLIN. For example, in Figure 3 John Doe Jr.'s driver's license number was inaccurately recorded in legacy.

These vehicle ownership inaccuracies occur most often with family members and/or other citizens with similar names. The following figure illustrates how MERLIN holds inaccurate vehicle ownership records. The vehicles and owners used for this illustration are John Doe Sr. who owns a 1976 truck and John Doe Jr. who owns a 1980 passenger car.

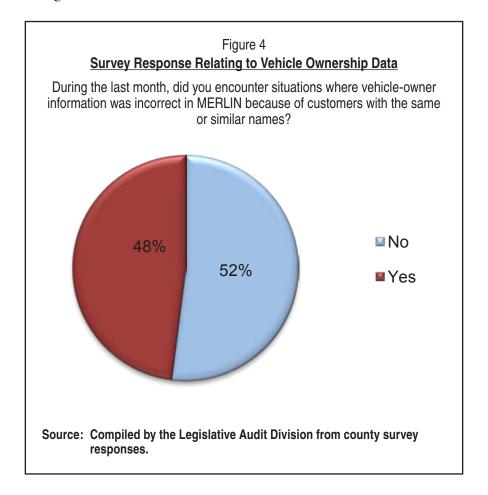


As can be seen in the figure, the situation occurs where John Doe Jr.'s car is under John Doe Sr.'s name in MERLIN and no vehicles are recorded under John Doe Jr.'s name.

Citizens May Be Affected by Inaccuracies in MERLIN Data

Some vehicles affected by the conversion of data from legacy to MERLIN would have been updated and corrected during annual registration renewal or transfer of vehicle ownership. However, for permanently registered vehicles, including boats and snowmobiles, the vehicle owner is not required to update their registration on an annual basis. Therefore, vehicle ownership inaccuracies still exist in MERLIN.

Based on survey work in October 2011, 48 percent of survey respondents indicated encountering situations where vehicle records in MERLIN were inaccurate.



As stated in the background chapter, multiple organizations, including law enforcement, financial institutions, and vehicle dealers rely on MERLIN data. Since outside organizations rely on MERLIN data, vehicle ownership inaccuracies may negatively affect citizens. Based on survey work, 14 percent of respondents indicated citizens received incorrect parking and/or traffic violations due to inaccurate vehicle ownership records.

Controls Could Be Established to Improve the Accuracy of MERLIN Vehicle Ownership Data

Section 61-3-101(2)(a), MCA, states the electronic record of title for a motor vehicle must contain the owner's name, Montana residence and, if different, mailing address, and customer identification number. Since MERLIN is the electronic record for title, it should hold accurate vehicle ownership records.

Since some data in legacy and MERLIN is inaccurate, the Department is unable to identify specific records affected by this issue. However, we believe the Department could establish system controls to verify all vehicle records for an individual, including permanently registered vehicles, when an individual conducts any type of vehicle title and registration activity. For example, when a citizen goes to the county office to register their vehicle, MERLIN could notify county staff of permanently registered vehicles assigned to the individual. At this point, county staff could verify the citizen is the owner of all permanently registered vehicles assigned to them in MERLIN. Additionally, since county staff would have an integral role in the verification of MERLIN data, the Department should communicate with county staff on the importance of the system control and verification of vehicle ownership records.

RECOMMENDATION #1

We recommend the Department:

- A. Establish process controls to verify citizens' vehicle ownership records, including permanently registered vehicles.
- B. Communicate with county staff the importance of the system control and verification of vehicle ownership records.

Audit Work Determined Security Interest or Lien Information May Be Inaccurate for Some Citizens

Many citizens borrow money to buy vehicles. When this occurs, the financial institution files a security interest or lien against the vehicle. If the citizen defaults on the loan, the financial institution has the right to acquire the vehicle. Section 61-3-103(1)(a), MCA, states the Department shall, upon payment of the fee, enter a voluntary security interest or lien against the electronic record of title for a vehicle. Since the Department is responsible for recording security interests and liens against the electronic record of title, MERLIN should hold accurate security interest and lien information.

Citizens May Be Affected by Inaccurate Security Interest or Lien Information

Audit work determined, in some cases, while MERLIN may have an accurate lien filed against a vehicle, the lien is attached to the wrong individual. The Department indicated these inaccuracies occurred when transferring legacy data to MERLIN. However, according to the Department, only vehicle records with a pending security interest or lien at the time of data transfer were affected. While the Department has run a report of affected vehicle records, it has not taken steps to correct inaccurate records. According to Department staff, this report holds over 100,000 vehicle records affected by the transfer.

As stated earlier, MERLIN is the official record for title and registration transactions and outside organizations, including financial institutions and vehicle dealers, rely on MERLIN data. However, financial institutions hold the official record for security interests and liens. Therefore, if an individual defaults on a car loan, the financial institution has the official lien record and the right to acquire the vehicle.

While lien records having an inaccurate individual attached to the lien do not affect financial institutions, this issue can potentially inconvenience vehicle owners and delay the transfer of vehicle ownership to a new owner. For example, if a citizen goes to trade in their car and purchase a new vehicle, if the individual attached to the lien is incorrect, the citizen will have contact the financial institution, and have the inaccurate individual removed from the lien record before they are able to trade in their vehicle.

Since the Department has a report that captured all vehicles with inaccurate lien information, it could use information on the report to identify and remove incorrect lien information from vehicle records in MERLIN. By correcting lien information in MERLIN, the Department will have better assurance vehicle records in MERLIN are accurate.

RECOMMENDATION #2

We recommend the Department correct inaccurate security interest or lien information in MERLIN.

Accuracy of License Plate Records for Permanently Registered Vehicles Can Be Improved

Section 61-3-562, MCA, states the owner of a light vehicle 11 years or older may permanently register the light vehicle upon payment and that the owner of a motor vehicle that is permanently registered is not subject to additional registration fees or other motor vehicle registration fees as long as the owner owns the vehicle. Additionally, \$61-3-332(3)(c), MCA, states a vehicle that is permanently registered may display the license plate and plate design in effect at the time of registration for the entire period that the vehicle is permanently registered.

License Plates for Permanently Registered Vehicles Should Be Valid

While conducting an analysis of plate records in MERLIN, we identified examples of vehicle plate records reassigned in error. For example, John Doe currently owns a trailer with the plate (5-1234) and Jane Public buys a trailer, registers the trailer, and receives the plate (51-234). In this circumstance, when reassignment occurs in error, MERLIN excludes the dash and reassigns John Doe's plate "1234" to Jane Public's trailer. This means John Doe's plate "5-1234" is no longer valid in MERLIN.

According to the Department, program errors occurred at various point in time, causing MERLIN to reassign plates in error. The Department completed its most recent fix related to reassignment in May 2011. By creating a fix in MERLIN, according to the Department, reassignment in error should no longer occur. However, individuals with vehicles affected by the reassignment of plates could be driving invalid plates. This means, if law enforcement looks up plate record information, citizens affected by reassignment could be cited for driving with invalid plates.

Steps Should Be Taken to Correct Plates Reassigned in Error

As stated earlier most vehicles, unless permanently registered, are renewed on an annual basis. Since the Department fixed MERLIN in May 2011, some plate records affected by reassignment will be or already have been corrected during registration renewal. However, for permanently registered vehicles, including motorcycles and trailers, individuals are not required to update their registration and therefore still have invalid plates. Since plate reassignment could potentially affect citizens, the Department should take steps to identify permanently registered vehicles affected by plate reassignment, notify the vehicle owner, and send the owner a valid plate.

RECOMMENDATION #3

We recommend the Department take steps to correct permanently registered records affected by plate reassignment by:

- A. Identifying affected records,
- B. Contacting vehicle owners, and
- C. Issuing a valid plate to the vehicle owner.

Duplicate License Plates Exist

Survey work identified 37 percent of respondents encountered duplicate license plate numbers during Fall 2011. Survey respondents indicated, in some cases, duplicate plate numbers occur because counties have similar numbers. For example, a vehicle in Lewis and Clark County is assigned plate number 5-1234 and another vehicle in Jefferson County is assigned plate number 51-234. While these plates have the same plate numbers, we believe these are not duplicate plate numbers since a distinction is made with the dash. However, survey respondents also indicated vehicles with the exact same plate number exist (e.g. 5-1234 and 5-1234).

Analysis Identified Duplicate Plate Numbers Exist

We conducted a query of MERLIN plate data to determine whether duplicate plates exist on currently registered vehicles. Based on our analysis of plate data, over 78,000 duplicate plates exist. By reviewing plate data and interviews with Department staff, we identified the following situations occurred causing plate numbers to be duplicated in MERLIN:

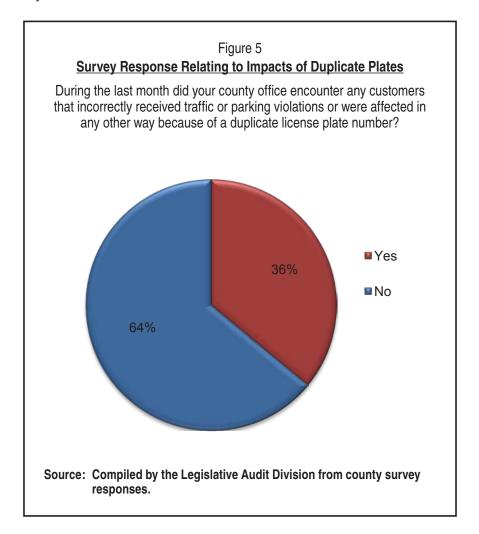
- 1. Duplicate plates existed in the legacy system and transferred to MERLIN.
- A program error was introduced in MERLIN during 2011 affecting plate order sequencing. The error caused duplicate plates to be manufactured across different plate types.

Additionally, while not MERLIN related, the Department indicated it does not have enough letter-number combinations to assign distinctive license plate numbers on small plates, for example plates assigned to motorcycles.

Duplicate Plate Numbers Affect Citizens

While the Department has corrected plate order sequencing in MERLIN, the Department has not removed duplicate plates created in error from circulation.

Therefore, citizens are still driving vehicles with the same plate number as another vehicle in the state. Since outside organizations, including law enforcement rely on MERLIN data, citizens may be negatively affected by duplicate plates. The following figure illustrates survey responses to whether citizens have reported being affected by duplicate plates.



As can been seen in the figure, more than one-third of survey respondents indicated citizens had reported incorrectly receiving traffic and/or parking violations due to duplicate plates.

Steps Should Be Taken to Correct Duplicate Plates

While specific circumstances occurred in MERLIN causing duplicate plate numbers to occur, \$61-3-331, MCA, requires county treasurers assign the motor vehicle, trailer, semitrailer, or pole trailer a distinctive license plate number. Since duplicate plate numbers can negatively affect or inconvenience citizens, the Department should take steps to ensure duplicate plate numbers, created by MERLIN, do not exist.

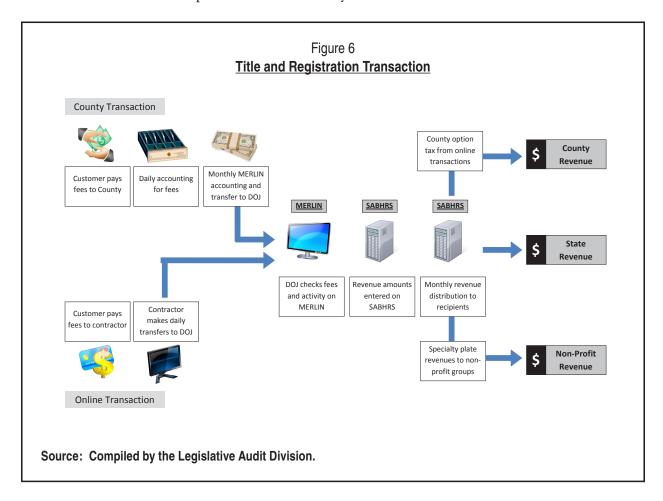
RECOMMENDATION #4

We recommend the Department remove duplicate license plates from circulation and issue affected citizens a new license plate with a distinctive number.

Chapter III – MERLIN Recording and Processing of Title and Registration Fees

Introduction

County offices send revenue collected from title and registration transactions to the Department of Justice (Department) each month. The amount sent to the state includes fees collected from title and registration transactions, excluding the county's portion of revenue collected (i.e. county option tax). The Department then records revenues on the state's accounting records (SABHRS). The following diagram shows how fees are processed and ultimately recorded on SABHRS.



For online transactions, the Department's contractor sends both state and county portions of revenue to the Department. Therefore, the state passes county revenue collected via online transactions onto the individual county offices.

The following chapter presents audit work conducted to address our second objective related to MERLIN's recording and processing of title and registration fees. Audit conclusions and recommendation for improvement are present in the following order:

- Title and Registration Fees Are Accurately Recorded and Processed
- Controls Over Fee Adjustments Could Be Strengthened

MERLIN Accurately Records and Processes Title and Registration Fees

To answer our second objective whether MERLIN accurately records and processes fees, we conducted two analyses. The first being a review of whether MERLIN accurately calculates fees related to transactions and the second being a review of whether fees recorded in MERLIN are processed and ultimately recorded in SABHRS.

Analysis of MERLIN's Calculation of Fees

To conduct a review of whether MERLIN accurately calculates fees related to transactions, we used the MERLIN database copy for September 30, 2011. We captured specific fees related to 114,077 transactions in September 2011. For example, one transaction may have the following fees:

- Light Vehicle Registration Fee
- Montana Highway Patrol Salary and Retention Fee
- Light Motor Vehicle Fish, Wildlife, and Park's (FWP) Park Fee
- County Option Tax

We then analyzed specific fees for the 114,077 transactions to identify any variances between the expected fee amount and the actual amount charged to the customer. For example, if we expected a fee to be \$4, any fee amount that was more or less than \$4 would be a variance.

While conducting our analysis we identified variances occurred between the actual amount charged and the expected amount. However, after further review, we determined these variances did not occur due to MERLIN's calculation of fees. Since variances did not occur due to MERLIN's calculations, we determined MERLIN accurately records and processes fee related to transactions. Variances identified will be discussed further at the end of this chapter.

Analysis of MERLIN's Processing of Fees

To determine whether MERLIN accurately accounts for and processes title and registration fees, we used the MERLIN database copy for September 30, 2011,

to capture all transactional fees recorded in MERLIN for September 2011. For approximately 675,500 September transactions recorded in MERLIN, fees totaled \$14.8 million.

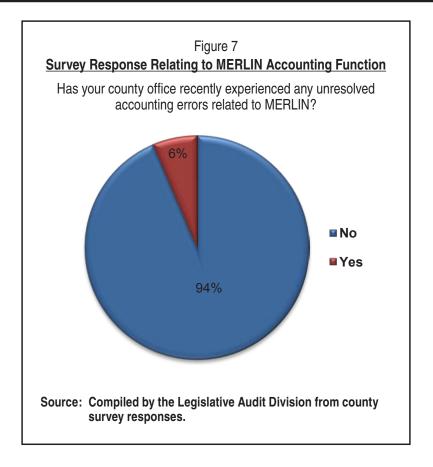
We then totaled the 675,500 fees by type. For example, MERLIN data showed 731 line items totaling \$90,555 was collected in September 2011 for boat registration fees. Since SABHRS is the Department's official accounting record, we compared the MERLIN amount to revenue recorded in SABHRS. We tied the \$90,555 to the revenue recorded in SABHRS for boat registration.

Our analysis included reviewing over 40 different fees totaling approximately \$10.8 million of fees recorded in MERLIN for September 2011. Since some of the fees collected in MERLIN are distributed to nonprofit organizations, fees specific to sponsor plate organizations were included in our analysis.

While we identified minimal discrepancies, approximately a tenth of a percent of the \$10.8 million we reviewed, a portion of the discrepancy is due to the time our copy of the MERLIN database was cutoff on September 30, 2011. Therefore, based on our review, we determined MERLIN accurately records and processes revenue and the revenue amount is accurately recorded in SABHRS. We also determined the Department has controls in place to ensure nonprofit organizations receive sponsor plate donations recorded in MERLIN.

Survey Work Identified Counties Are Satisfied With MERLIN's Accounting Process

During survey work, we gave counties the opportunity to provide us feedback on the accounting process in MERLIN. The following figure illustrates the county response to the survey question whether they have experienced any accounting errors in MERLIN.



As can be seen in the figure, almost all respondents indicate they have not experienced unresolved accounting errors in MERLIN. Additionally, during county visits, counties indicated the accounting process works well. Counties also indicated, if they identify issues during the accounting process, they contact Department staff and are able to resolve the issue.

CONCLUSION

Based on audit work conducted, we conclude MERLIN accurately records and processes title and registration fees.

Improvements Could Be Made to Fee Adjustments

While county staff appear to be satisfied with MERLIN's accounting process, over 50 percent of respondents indicated some type of inaccuracy with fees produced in MERLIN. While we conclude MERLIN accurately calculates fees based on system data, we did identify variances between the expected fee amount according to Title 61, Section 3, Part 5, MCA, and the amount charged to the citizen. However, when following up on variances with the Department, we identified variances occur when

county staff manually adjust fees during the transaction. The following sections discuss fee adjustments.

Reasons for Some Fee Adjustments Could Not Be Identified

Since certain fees can be waived by citizens (e.g. FWP Park Fee) or specific citizens may be exempt from certain fees (e.g. military exempt), counties need to be able to conduct fee adjustments. When county staff conduct fee adjustments, MERLIN requires county staff enter a fee adjustment reason. Examples of adjustment reasons in MERLIN include military exempt, government exempt, administrative decision, and credit applied.

For some of the fee variances we identified, we were able to identify county staff conducted a fee adjustment and the detailed reason for the adjustment. For example, if the citizen met military exempt requirements, MERLIN data showed county staff conducted a fee adjustment and the adjustment reason was "military exempt." However, in other cases, the fee adjustment reason was not as detailed. For example, adjustment reasons stating "administrative decision" and "no charge" were less detailed and did not provide assurance the fee was accurately adjusted.

Examples of transactions we reviewed that held less detailed adjustment reasons include:

- While reviewing personalized plate fees, it appears a customer was not charged the \$25 initial personalized plate fee, even though they applied for a personalized plate.
- When reviewing transactions related to security interest, it appears the customer was charged \$16 (\$8 twice), even though the lienholder had already paid the \$8 security interest fee.
- While reviewing gross vehicle weight (GVW) fees, we identified a transaction in which the customer appeared to be adding GVW, and the \$5 fee for adding GVW was adjusted to zero.

Since the adjustment reason noted was "administrative decision", "no charge," or "credit applied," we could not verify whether the fee should have been adjusted to zero. Additionally, when following-up with the Department, Department staff could not verify why the fee was adjusted.

We conducted an analysis of all fee adjustments and identified a total of \$1.5 million in fees were adjusted in September 2011. The following table details the amount of fees adjusted by adjustment reason for September 2011.

Table 1
September 2011 Fee Adjustments

Adjustment Reason	Total Amount
No Charge	\$685,924
Auto Correct	9,080
Administrative Decision	76,211
Military Exempt	192,483
Credit Applied	101,637
NonProfit Exempt	39,282
Federal Exempt	251
Government Exempt	57,114
Tribal Exempt	265,612
Purple Heart Exempt	3,511
Veteran Exempt	81,023
Ex-Prisoner of War Exempt	396
Opt Out (FWP Fee)	57,848
Total	\$1,570,372

Source: Compiled by the Legislative Audit Division from department records.

As can be seen in Table 1, for September 2011 we were able to identify county staff adjusted \$57,848 for citizens opting out of the FWP park fee. However, for the \$685,924 of "no charge" adjustments in September 2011 we could not identify, nor could Department staff verify why county staff adjusted these fees.

Controls Over Fee Adjustments Could Be Strengthened

While the Department has controls in place, including a fee adjustment report and a note field within MERLIN, at the time of our audit, these controls were not being used. By establishing a system edit to require the note field in MERLIN be used when fee adjustments occur, the Department would have better assurance fees are

accurately adjusted. Additionally, by incorporating the fee adjustment report into its auditing function and reviewing adjustment notes, the Department could obtain a better understanding of whether training and business process changes need to occur for specific fees and transactions.

RECOMMENDATION #5

We recommend the Department:

- A. Require use of established note field for all fee adjustments,
- B. Incorporate the fee adjustment report into its auditing function, and
- C. Use the fee adjustment report to identify training and/or business process needs.

Chapter IV – Department Communication With County Offices

Introduction

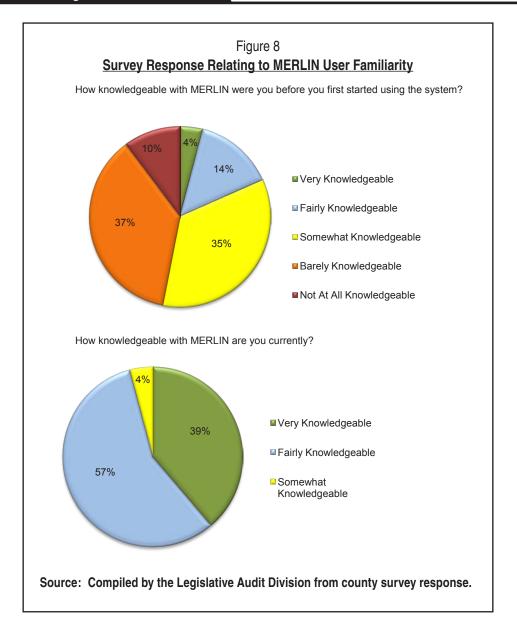
As stated throughout the previous chapters, county offices have an important role in the recording and processing of vehicle title and registration. County offices are generally the customer's point of contact and are responsible for conducting the front-end of title and registration transactions.

The following chapter presents audit work conducted to determine whether the Department of Justice (Department) has established a communication structure with county offices to promote accurate and efficient motor vehicle title and registration. Audit findings and recommendations for improvement are presented in the following order:

- Establishing A Formal Training Plan for County Offices
- Establishing A Formal Communication Structure For County Offices
- Following-up With Counties To Ensure Inventory Issues Are Addressed

Overall County Staff Indicate Being More Familiar With MERLIN

As stated in Chapter II, survey respondents indicated the Department has made improvements to MERLIN and, in general, counties are satisfied with MERLIN. Additionally, survey respondents indicated they are more knowledgeable and comfortable using MERLIN to record and process title and registration transactions than when it was first implemented.



While counties are more familiar with MERLIN, audit work determined the communication structure between the Department and county offices could be improved. The following sections discuss these areas of improvement.

Training Resources Currently Available to Counties

The Department currently has written manuals and reference materials it distributes to all county offices. Additionally, county offices contact regional trainers with questions related to MERLIN and title and registration transactions. The Department also holds an annual Training and Communication Contacts (TAC) conference where participating counties learn about the latest system enhancements and policy updates. At the conference, counties are also given the opportunity to share ideas and provide feedback to the Department.

Improvements Could Be Made to Training

Our survey provided county staff the opportunity to provide us feedback related to the communication structure, including training, between the Department and county offices. Based on survey work, the majority of survey respondents indicated being trained in MERLIN during the Department's "initial training" and "learning as they went and contacting Department staff and trainers as needed." However, 40 percent of survey respondents indicated the initial training provided by the Department was "poor" or "very poor" and 31 percent indicated this training was "neither good nor bad."

During survey work of county staff, when asked about training, survey respondents expressed the following concerns related to current training resources:

- The initial training was offered two years prior to MERLIN being implemented.
- No additional training opportunities have been offered to county staff since the initial training.
- No training plan or training opportunities have been established for new staff.
- Training manuals and reference materials are out-of-date and do not represent current business practices.
- No formal training plan exists for county staff.
- Not all county staff are able to attend the TAC conference.

Audit Work Identified County Offices Would Benefit From Formal Training Plans

While survey respondents expressed concerns related to training, they also indicated the most helpful and informative training resources are the Department's regional trainers and the annual TAC conferences. Additionally, 85 percent of respondents indicated their county office would benefit from optional refresher courses and workshops, and 66 percent indicated their county office would benefit from a standardized training plan and training materials for new employees.

While the Department indicates improvements to training are needed, training has not been prioritized due to the amount of time and resources spent on MERLIN functionality and enhancements. Since county offices have an integral role in the recording and processing of title and registration transactions, the Department should prioritize and establish formal training plans for county offices.

RECOMMENDATION #6

We recommend the Department prioritize and establish a formal training plan for county offices that includes:

- A. Updating reference materials,
- B. Establishing ongoing training workshops, and
- C. Establishing a training program for new staff within county offices.

Improvements Could Be Made in Communications Between The Department and County Offices

Currently, counties can contact multiple resources for questions regarding MERLIN and title and registration procedures. Among these resources are regional trainers, department staff, help desks, and email services. Nearly 50 percent of survey respondents indicated some type of improvement in communication is needed. Based on survey responses, examples of where communication improvements could occur include:

- When waiting for a response via email, it would be good to know if the Department received the email and the status of the issue.
- More timely responses.
- Long wait times for phone resources, especially when customers are waiting.
- Availability of resources could be improved.
- One number and/or contact would be beneficial.

Audit work identified examples of effective communication structures generally include:

- A single point of contact for consistency purposes,
- A focus on two-way communication to keep all parties informed of status updates, and
- A tracking system to log issues, analyze trends, and document how issues are resolved.

Audit Work Identified Delays and Inconsistencies Occur Due to Current Communication Structure

Based on survey results, we determined county offices contact different resources for the same issue. These inconsistencies could potentially cause inconsistencies in the way title and registration transactions are processed in MERLIN. Additionally, counties indicate confusion or delays occur due to the current communication structure. For example, counties indicated the following has occurred when trying to contact the Department for responses to questions:

- Being put on hold or phones being busy.
- Calling multiple resources because phones are backed-up and busy.
- Not knowing when resources are available to answer questions (in or out of the office).
- Timely responses not received through email services.
- Hard to know if the Department is working on an issue that was sent via email.

The Department Indicates Improvements Are Being Made in Communications

The Department indicates it needs to, and has begun making improvements to its communication structure. For example, the Department is in the beginning phases of implementing a new phone system. The phone system would set-up a single point of contact for county offices. County offices would then be directed to the appropriate resource for their question. Additionally, the Department plans to establish tools for counties that will allow county staff to share ideas and expertise, as well as search a database for common problems and issues. These tools would allow county staff to receive quick and consistent responses to the questions and concerns.

County Offices Are an Integral Part of Title and Registration Process

Since county offices are an integral part of the title and registration process, it is important county offices' are knowledgeable and able to receive information in an efficient and consistent manner. By fully implementing a single point of contact, the Department would be better able to answer and resolve county offices' questions. Additionally, by formalizing its communication structure with county offices, the Department would be better able to ensure it disseminates information to county offices on a consistent basis.

RECOMMENDATION #7

We recommend the Department make improvements to its communication structure with county offices by developing:

- A single point of contact, and
- B. A structure to disseminate information to county offices.

Inventory Tracking in MERLIN Could Be Improved

Since license plates and registration records are provided to citizens at the time of title and registration, each county has inventory, including license plates, in their office. The Department currently uses MERLIN to track the amount of license plates and other inventory each county has on hand. Based on survey work, approximately 60 percent of respondents indicated the current inventory process in MERLIN needs improvement. Through survey work we identified 57 percent of county respondents indicated experiencing problems (between August and October 2011) with either license plates or registration paper inventory. Examples of problems experienced by counties include:

- Physical inventory levels not matching MERLIN inventory records.
- Not receiving inventory in a timely manner.
- Not receiving the amount of inventory ordered.

The business process for title and registration currently allows citizens to receive license plates (excluding personalized plates) at the time of registration. Therefore, counties are expected by citizens to have plates and registration paper on hand to complete vehicle title and registration. Additionally, §61-3-331, MCA, states at the time of issuing a registration receipt, the county treasurer, unless the license plates must be specially ordered from the Department, deliver the license plates to the applicant.

County Offices Appear to Run Out of Inventory While Processing Transactions

According to survey respondents, of the respondents experiencing inventory problems, 68 percent indicated, between August and October 2011, running out of registration paper and license plates. When this occurs, counties indicated:

- Calling or emailing the Department to have inventory sent to the county office.
- Issuing the customer a temporary registration permit.

- Having the customer return at a later date.
- The customer deciding to select a different plate design that was in-stock.
- Traveling to neighboring counties to obtain registration paper.
- Taping registration stock together until there was enough to print registrations.

While conducting county visits, we also observed a county running out of sponsor license plates. In this instance, the county offered ordering the sponsor plate and sending them to the customer, however, the customer decided to get the standard license plate that was in-stock.

Improvements Are Being Made to Inventory Tracking

Since the Department tracks inventory in MERLIN, we reviewed the inventory process at county offices. Based on our review, the Department has established a set inventory level for each county to have on hand. If MERLIN shows the county has reached this level and the county requests an order, the Department will initially question the order. Additionally, if county offices do not submit inventory orders when running low, the Department does not receive notification it should send inventory to the county office. Based on survey responses:

- Thirteen percent indicated running out of inventory because of the county offices' error.
- Sixty-one percent indicated the Department did not send requested quantity and the county did not receive the order in time.
- Twenty-six percent indicated it was a combination of the county and Department's error.

Since the survey was completed in October 2011, the Department has changed the inventory level set in MERLIN from 60 to 90 days. Meaning, county offices are able to have a higher amount of inventory on hand. Additionally, the Department has been working on implementing an automated reordering feature in MERLIN to generate inventory orders. While these changes should help county offices with inventory issues they were experiencing at the time of our audit work, the Department should follow-up with all county offices. Follow-up would ensure issues are resolved and county offices are no longer running out of inventory when processing title and registration transactions.

RECOMMENDATION #8

We recommend the Department, following implementation of inventory changes, follow-up with county offices to identify whether inventory issues still exist.



ATTORNEY GENERAL STATE OF MONTANA

Steve Bullock Attorney General



Department of Justice 215 North Sanders PO Box 201401 Helena, MT 59620-1401

April 24, 2012

RECEIVED

APR 2 4 2012

LEGISLATIVE AUDIT DIV.

Tori Hunthausen Legislative Auditor Legislative Audit Division PO Box 201705 Helena MT 59620-1705

Dear Ms. Hunthausen:

The Department of Justice thanks your audit team for its professionalism while conducting the Montana Enhanced Registration and Licensing Information Network (MERLIN) performance audit.

Three years ago this month, MERLIN replaced the legacy system used in county treasurers' offices (CTOs) and the Motor Vehicle Division (MVD) to title and register vehicles. While MERLIN's start was rocky, through persistence, patience and the teamwork of MVD and county treasurers, MERLIN was stabilized early in 2011. Today, MERLIN contains the records for over 1.9 million actively registered vehicles.

With MERLIN, the state of Montana and county treasurers gained an unparalleled ability to oversee both motor vehicle titling and registration transactions, and motor vehicle revenues. We can now track that information from the time a customer starts a transaction at the counter in a county treasurer's office to its completion at the Titling and Registration Bureau, and the reporting of the associated revenue to SABHRS.

Your audit confirms that MERLIN does what it was intended to do: it accurately processes Montana vehicle title and registration transactions and motor vehicle fee revenue, accurately records those transactions within MERLIN, and accurately records the revenue within MERLIN and SABHRS. Given the number of MERLIN users, the volume of transactions and the amount of monies processed, these findings are particularly noteworthy.

On a typical day, more than 200 users perform vehicle-related transactions and functions in MERLIN, including county treasurers' office staff providing services in 61 county locations, MVD employees at the Title and Registration Bureau in Deer Lodge, and financial staff, auditors, trainers and related operations support staff in Helena and across Montana.

Using MERLIN, MVD in partnership with county treasurers:

- Each year, issues nearly 440,000 titles, sends out 870,000 registration renewal notices, adds or releases nearly 300,000 security interests and liens, and responds to over 170,000 formal requests for vehicle ownership information.
- In FY 2011, collected over \$160 million, with \$35.6 million retained by counties and over \$3 million forwarded to the organizations that sponsor specialty license plates.
- In CY 2011, performed over 1 million vehicle titling and registration transactions resulting in nearly 2.3 million titling, registration, security interest filings and releases, address changes, vehicle dealer licensing, and financial actions.

In the three years between April 21, 2009 and March 31, 2012, we collected over \$482 million – with \$110 million retained in the counties and \$7.6 million forwarded to license plate sponsors – and performed nearly 6 million actions in MERLIN.

MVD agrees with the audit's findings. Our partial concurrence with some recommendations is based on the fact that MVD and the CTOs had already identified those issues during the MERLIN stabilization process and begun to address them. These issues have been prioritized and, within the limits of existing resources, problems with specific, individual transactions have been resolved. Remaining areas of concern will be addressed in MVD's corrective action plan, with a higher priority given to changes that significantly impact customers.

Following are the responses to the audit recommendations presented in your audit report dated April 2, 2012:

Recommendation #1

We recommend the Department:

A. Establish process controls to verify citizens' vehicle ownership records, including permanently registered vehicles:

We partially concur. MERLIN already contains process controls related to vehicle ownership. Existing controls will be reviewed with CTOs to determine if further enhancement is needed. Many conversion-related errors in vehicle ownership records have been corrected in the normal course of business, such as during annual registration renewals or subsequent ownership transfers. MVD will evaluate alternative approaches to correcting records for permanently registered vehicles.

B. Communicate with county staff the importance of the system control and verification of vehicle ownership records:

We concur. MVD will work with all MERLIN users to continue to reinforce the importance of system controls in assuring and maintaining data integrity. MVD will use MERLIN's comprehensive data logging to research records and remedy deficiencies when noted.

Recommendation #2:

We recommend the Department correct inaccurate security interest or lien information in MERLIN.

We partially concur. MVD was aware of this issue prior to the audit and had developed an action plan to address it. Our strategy has focused on making sure the nearly 300,000 security interest filings and releases processed each year are correct, while responding promptly to research and fix inaccurate security interests when they are encountered. This has maximized confidence in the process and addressed the immediate needs of individuals and/or financial institutions.

MVD will develop and execute a plan to correct inaccurate lien information for vehicle records not yet corrected.

Recommendation #3

We recommend that the Department take steps to correct permanently registered records affected by plate reassignment by:

A. Identifying affected records:

We partially concur, since MVD has already defined criteria to identify the affected records and requested a data extract from MERLIN to determine the best approach to correct plate assignments where needed.

B. Contacting vehicle owners:

We concur. MVD will develop and execute a plan to contact vehicle owners when system re-activation of the license plate number is insufficient to correct the record.

C. Issuing a valid plate to the vehicle owner:

We concur. MVD will issue a valid plate to the affected owner when the issue cannot be resolved by plate re-activation alone.

Recommendation #4

We recommend the Department remove duplicate license plates from circulation and issue affected citizens a new license plate with a distinctive number:

We partially concur. Again, MVD was aware of this issue prior to the audit and has already defined criteria to identify duplicate plate numbers transferred from the legacy system to MERLIN, as well as those arising from a program error in MERLIN that has since been fixed. Once identified, MVD will develop and execute a plan to contact customers and replace duplicate-numbered plates with unique-numbered plates.

Recommendation #5

We recommend that the Department:

A. Require use of established note field for all fee adjustments:

We concur. MVD will evaluate the best approach to categorize, differentiate, require and track both system-generated fee adjustments (built into MERLIN) and MERLIN user-initiated adjustments. The "no charge" category in Table 1 includes both system *and* user adjustments and, as a result, overstates the incidence of unexplained user adjustments within MERLIN. All system adjustments can be explained. MVD will consult with county treasurers regarding the business need for additional or different fee adjustment note fields.

B. Incorporate the fee adjustment report into its auditing function:

We concur. MVD will incorporate fee adjustment tracking into current MERLIN audit functions.

C. Use the fee adjustment report to identify training and/or business process needs:

We concur. MVD will use the MERLIN audit results to identify, target and implement training and/or business process needs to strengthen fee adjustment controls and accountability.

Recommendation #6

We recommend that the Department prioritize and establish a formal training plan for county offices that includes:

A. Updating reference materials:

We concur. Reference materials have been updated on an ad hoc basis since MERLIN went live. However, MVD recognizes that a more streamlined and predictable process for updating business procedures, training materials and information available to MVD and county staff is needed. A project is underway to accomplish that objective and county participants will be involved in its review prior to implementation.

B: Establishing ongoing training workshops, and

We partially concur. MVD's current training model, carried forward from legacy to MERLIN, was built on a "train the trainer" model, with each county having a designated "Training and Communication" (TAC) contact with MVD. MVD provides the TAC with information for the county. TACs then share that information with their staff whenever there is a business process change or alternative procedures are needed to correct an error. An annual TAC conference is held each October and, typically, more than 100 county participants attend the two to three-day event.

In 2011, MVD offered all counties an onsite training/troubleshooting/coaching visit by an MVD trainer between April and July. Nearly all counties accepted, with a few unable to schedule a visit until later in the year. MVD will offer similar opportunities to the counties this year, sending a team that includes a trainer, a MERLIN financial specialist and/or a TRB business lead, depending on what each county needs or requests.

C: Establishing a training program for new staff within county offices.

We partially concur. MVD is well aware of the ongoing challenge of training new CTO and MVD staff, as well as all existing staff, on new system functions, changes and enhancements.

The existing training materials will be updated as the associated business processes are finalized.

MVD is arranging access to a "dummy" copy of MERLIN that will allow new CTO and MVD staff to safely practice operating the system. It will also allow existing staff to practice new functions and enhancements.

Recommendation #7:

We recommend that the Department make improvements to its communication structure with county offices by developing:

A: A single point of contact, and

We partially concur. A single point of contact system may not be feasible given the mix of technical, business process and policy issues that may arise. However, MVD acknowledges the need for improving consistency and responsiveness of communications with MERLIN users. Prior to the audit, MVD implemented several changes to improve communications with the counties by:

- Providing continuous coverage of the ASKMERLIN and MERLIN Finance email boxes from 7 a.m. until 5 p.m. each business day. The MERLIN Finance email address was added at the request of the counties.
- Increasing the capacity of the data network link between Helena and Deer Lodge from 3 MB to 10 MB to significantly increase the speed of electronic communication related to MERLIN.

This has allowed MVD to upgrade the phone system between the Helena MVD office and the Title & Registration Bureau in Deer Lodge. MVD is moving to a new Internet-based (VoIP) phone system. In the coming weeks, all of the phones at the TRB will be upgraded to the new system. This means that county and customer calls can be transferred between Deer Lodge and Helena, when expertise specific to a certain unit or process is needed.

 MVD has added new Internet communication tools such as Microsoft Lync for training, general communication and document sharing and those tools will be extended to the counties.

Additionally, to reduce the volume of phone calls going to TRB, MVD has shifted a number of responsibilities to other bureaus. For example, responsibility for issuing handicapped placards, and staff support for specialty license plates and renewal notices have been moved from TRB to other MVD units in Helena and elsewhere.

B. A structure to disseminate information to county offices:

We partially concur. MVD has established monthly teleconferences with CTO leadership and meets with CTOs at their annual convention, certification schools and other events as requested. MVD will continue to work with county users to improve communication methods and standards to ensure consistent, timely and meaningful responses.

Recommendation #8:

We recommend the Department, following implementation of inventory changes, follow-up with county offices to identify whether inventory issues still exist.

We partially concur. MVD has been working on inventory issues with individual counties since MERLIN was first implemented. MVD agrees periodic surveys are worthwhile. MVD has ordered an electronic survey service for use across MVD and will include a section on inventory matters in the planned quarterly surveys of counties.

Since MERLIN's initial implementation, MVD has been working with each county to adjust inventory quantities. We have generally been able to achieve a mutually agreed upon mix of plates stocked and quantities on hand based on actual usage, regional business activity and local plate preferences.

In FY 2010, these discussions resulted in increasing the "standard quantity on hand" from a two-month to a three-month supply and setting the reorder replacement quantity from 4 weeks to 6 weeks.

MVD has been reducing quantities and returning to MVD inventory, plates that have been stocked in the counties but that have not sold as well as expected. When possible, MVD ships the returned plates to other county locations rather than producing new ones.

Sincerely,

STEVE BULLOCK Attorney General

SB:sj